

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 IO-14 ISO-00 AID-05 CIAE-00 COME-00

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R 270830Z AUG 77

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 8585

INFO AMCONSUL CAPE TOWN POUCH

AMCONSUL DURBAN POUCH

AMCONSUL JOHANNESBURG POUCH

AMEMBASSY LONDON

USMISSION GENEVA

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E.O. 11652: N/A

TAGS: SF, EGEN

SUBJ: RESERVE BANK ANNUAL REPORT

1. SUMMARY: ANNUAL REPORT OF THE RESERVE BANK FOR YEAR
ENDING JUNE 30,1977 SHOWS SOUTH AFRICAN ECONOMY GREW BY
1 0/C IN REAL TERMS WITH MINING AND AGRICULTURE SHOWING
POSITIVE REAL GROWTH WHILE MANUFACTURING, CONSTRUCTION, AND
TRADE DECLINED. SUBSTANTIAL REAL GROWTH IN GDP OCCURRED
IN SECOND QUARTER OF 1977 AFTER TWO QUARTERS OF DECLINE
OWING PRIMARILY TO INFLUENCE OF GOOD AGRICULTURAL HARVEST.
CURRENT ACCOUNT DEFICIT WAS CUT TO R199 MILLION COMPARED
TO R2,039 MILLION IN PREVIOUS YEAR(ONE RAND EQUALS \$1.15). SECOND
QUARTER OF 1977 SHOWED FIRST SUBSTANTIAL CURRENT ACCOUNT SURPLUS IN
THREE YEARS. HOWEVER, OVERALL IMPROVEMENT IN CURRENT
ACCOUNT FOR YEAR WAS OFFSET BY MASSIVE SHIFT IN CAPITAL
FLOWS WITH R1.707 MILLION INFLOW IN 1975/76 CHANGING TO
R121 MILLION OUTFLOW IN 1976/77 WITH OUTFLOW PARTICULARLY
HEAVY IN FIRST HALF OF 1977. AS RESULT, NET FOREIGN EX-
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CHANGE RESERVES DECLINED BY R705 MILLION IN 1976/77. IN
HIS ADDRESS TO ANNUAL STOCKHOLDERS MEETING, RESERVE BANK
GOVERNOR DE JONGH STATED THAT IN VIEW OF FAILURE OF NET
RESERVES TO IMPROVE IN SPITE OF STRENGTHENED CURRENT
ACCOUNT AND FACT NET OUTFLOWS OF CAPITAL MAY CONTINUE FOR
SEVERAL MONTHS. BALANCE OF PAYMENTS MUST CONTINUE TO HAVE
TOP PRIORITY FOR ECONOMIC POLICY AND GENERAL ECONOMIC

STIMULATION IS RULED OUT AT THIS TIME. DE JONGH PARTICULARLY REJECTED LARGE INCREASES IN GOVERNMENT SPENDING, CITING DANGERS INVOLVED IN FINANCING GOVERNMENT PROJECTS THROUGH BANK CREDITS. HE DID, HOWEVER, STATE THAT SOME SELECTIVE STIMULATION WAS FEASIBLE AND ANNOUNCED THAT BANKS WILL AGAIN HAVE THEIR CREDIT CEILINGS INCREASED EACH MONTH BY ONE HALF PERCENT. END SUMMARY.

2. NATIONAL ACCOUNTS: FOR YEAR ENDING JUNE 30,1977, RESERVE BANK REPORT SHOWS GDP GREW BY 1 P/C IN REAL TERMS WHILE GNP GREW BY 1.5 P/C. VARIOUS SECTORS SHOWED DIVERGENT TRENDS WITH MINING AND AGRICULTURE ACHIEVING SUBSTANTIAL REAL GROWTH WHILE MOST OTHER AREAS DECLINED. WITH THESE TWO PRIMARY SECTORS EXCLUDED, VALUE ADDED BY REST OF ECONOMY DECLINED BY 1.5 P/C. REAL GROWTH FIGURES FOR INDIVIDUAL SECTORS IN 1976/77 WERE AGRICULTURE PLUS 16 P/C, NON GOLD MINING PLUS 28 P/C, GOLD MINING MINUS 0.5 P/C MANUFACTURING MINUS 5.5 P/C, CONSTRUCTION MINUS 10 P/C, RETAIL AND WHOLESALE TRADE MINUS 7 P/C, TRANSPORT AND COMMUNICATION PLUS 8 P/C, AND GENERAL GOVERNMENT PLUS 3.5 P/C. GROSS DOMESTIC FIXED INVESTMENT WAS DOWN 8 P/C. STRIKING CHANGES OCCURRED IN REAL GDP IN FIRST TWO QUARTERS OF 1977 WITH 4 P/C REAL DECLINE IN FIRST QUARTER (AT ANNUAL RATE) BEING FOLLOWED BY 12 P/C GROWTH IN SECOND QUARTER. SURGE IN SECOND QUARTER WAS LARGELY DUE TO BUMPER MAIZE CROP HARVESTED DURING QUARTER BUT EVEN THE NON-AGRICULTURAL UNCLASSIFIED

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SECTOR SHOWED 2 P/C REAL GROWTH IN QUARTER, THE FIRST TIME IN FIVE QUARTERS AN OVERALL POSITIVE GROWTH RATE IN THESE SECTORS HAS BEEN RECORDED.

3. BALANCE OF PAYMENTS: ANNUAL REPORT SHOWD MASSIVE IMPROVEMENT IN CURRENT ACCOUNT DEFICIT WITH DEFICIT DROPPING TO R199 MILLION IN YEAR ENDING JUNE 30,1977 COMPARED TO R2,039 MILLION IN PREVIOUS YEAR. CURRENT ACCOUNT MANAGED STEADY IMPROVEMENT OVER COURSE OF 12 MONTHS WITH SECOND QUARTER OF 1977 ACTUALLY REALIZING SURPLUS OF R1,277 MILLION AT ANNUAL RATE SEASONALLY ADJUSTED. BASIS OF CURRENT ACCOUNT IMPROVEMENT WAS 33 P/C INCREASE IN EXPORTS, LARGELY PRODUCTS OF NON-GOLD MINING, AND 6 P/C DECLINE IN IMPORTS. HOWEVER, PARALLELING AND LARGELY OVERSHADOWING IMPROVEMENT IN CURRENT ACCOUNT WAS MASSIVE DETERIORATION IN CAPITAL ACCOUNT WITH A NET CAPITAL INFLOW OF R1707 MILLION IN 1975/76 CHANGING TO A NET OUTFLOW OF R121 MILLION. MOST OMINOUS TREND FOR SA WAS THAT NET INFLOW IN SECOND HALF OF 1976 OF R528 MILLION SHIFTED TO A NEW OUTFLOW OF R649 MILLION FOR FIRST HALF OF 1977 (I.E., A LOSS OF R100 MILLION PER MONTH). MAJOR PROBLEM AREA WAS PRIVATE SHORT-TERM CAPITAL

MOVEMENTS WHICH HAD A NET OUTFLOW OF R767 MILLION IN 1976/77
OFFSETTING A NET INFLOW OF R452 MILLION IN LONG-TERM
CAPITAL. EVEN THE LONG-TERM CAPITAL INFLOW SHOWED A
DECLINING TREND OVER YEAR WITH SECOND QUARTER OF 1977
SEEING NET OUTFLOW OF ABOUT R60 MILLION, THE FIRST
QUARTER OF SUCH OUTFLOWS SINCE 1973, THE ANNUAL REPORT
ATTRIBUTES THE CAPITAL OUTFLOWS TO (1) POLITICAL
UNCERTAINTIES IN SOUTHERN AFRICA, (2) REPAYMENT OF
SHORT-TERM FOREIGN DEBT BY RESERVE BANK, (3) A DECLINE IN
TRADE CREDITS CAUSED BY DECREASE IN IMPORTS, (4) LOWER
RATE OF FIXED INVESTMENT, AND (5) LESS ATTRACTIVE YIELDS
ON DIRECT INVESTMENT UNDER RECESSIONARY CONDITIONS. MOST
NOTEWORTHY FEATURE OF BALANCE OF PAYMENTS WAS THAT NET
FOREIGN EXCHANGE RESERVES (GROSS RESERVES MINUS SHORT-TERM
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FOREIGN LIABILITIES OF RESERVE BANK AND MONETARY BANKING
SECTOR) CONTINUED TO DECLINE IN 1976/77 BY R708 MILLION
IN SPITE OF CURRENT ACCOUNT IMPORVEMENT. INCREASING NET
RESERVE POSITION HAS BEEN AN ANNOUNCED GOAL OF GOVERNMENT
ECONOMIC POLICY AND FAILURE TO ACHIEVE THIS IS DETERMINING
FACTOR IN OPPOSITION OF RESERVE BANK GOVERNOR TO GENERAL
STIMULATION BY THE GOVERNMENT.

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R 270830Z AUG 77
FM AMEMBASSY PRETORIA
TO SECSTATE WASHDC 8586
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AMCONSUL JOHANNESBURG POUCH
AMEMBASSY LONDON
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4. PRICES AND LABOR: REPORT SHOWS CONSUMER PRICES ROSE BY AN AVERAGE OF 11.2 P/C IN 1976/77 COMPARED TO 11.9 P/C IN 1975/76. RATE WAS HIGHER IN FIRST HALF OF 1977 THAN SECOND HALF OF 1976 DUT TO INCREASES IN CONTROLLED PRICES AND INDIRECT TAXES. WHOLESALE PRICES GREW BY 14.7 P/C IN 1976/77 VS. 15.7 P/C IN PREVIOUS YEAR. REGISTERED UNEMPLOYMENT OF WHITES, ASIANS AND COLOREDS REACHED 28,000 IN JUNE 1977, 1.4 P/C OF THAT PORTION OF WORK FORCE. OVERALL EMPLOYMENT IN NON-AGRICULTURAL SECTORS ROSE BY ONLY 1.1 P/C IN NINE MONTHS ENDING MARCH 30. AVERAGE REAL INCOMES ROSE BY 2 P/C OVER THIS PERIOD WITH NON-WHITE INCOMES RISING BY 5 P/C AND WHITE INCOMES LESS THAN 1 P/C.

5. DE JONGH'S ADDRESS: IN HIS SPEECH TO ANNUAL STOCKHOLDERS MEETING, RESERVE BANK GOVERNOR DE JONGH STATED THAT THE GOVERNMENT'S RESTRICTIVE MONETARY AND FISCAL POLICY OVER THE YEAR HAD BEEN SUCCESSFUL IN SHARPLY REDUCING CURRENT ACCOUNT DEFICIT AND IN MODERATELY SLOWING INFLATION RATE. UNCLASSIFIED

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HE ALSO NOTED DOMESTIC SAVINGS RATE UP AND A COUNTRY ABLE TO FINANCE HIGHER PORTION OF ITS CAPITAL NEEDS INTERNALLY. HOWEVER, HE ACKNOWLEDGED THAT CAPITAL OUTFLOW HAD OFFSET IMPACT OF CURRENT ACCOUNT ON NET RESERVES AND OBSERVED NET CAPITAL OUTFLOW MAY BE EXPERIENCED FOR SOME MONTHS TO COME. AS RESULT, TOP PRIORITY MUST CONTINUE TO BE GIVEN TO STRENGTHENING BALANCE OF PAYMENTS AND REDUCING INFLATION RATE. HE STATED LARGE CURRENT ACCOUNT SURPLUSES HAVE BECOME ESSENTIAL AND IT WOULD BE UNWISE AT THIS STAGE TO MODIFY POLICY TO ONE OF GENERAL STIMULATION. IN PARTICULAR, DE JONGH STATED THAT EXPANDED GOVERNMENT SPENDING, FINANCED BY BANK CREDIT WOULD BE DETRIMENTAL. HE DED, HOWEVER, STATE SELECTIVE STIMULATION WAS FEASIBLE AND WENT ON TO ANNOUNCE POLICY OF AUTOMATICALLY RAISING CEILING ON BANK CREDIT BY 0.5 P/C EACH MONTH WOULD BE REINSTITUTED. BANK CREDIT CEILINGS HAD BEEN FROZEN SINCE MARCH 1977. CREDIT CEILINGS ALSO ABOLISHED FOR SMALLER FINANCIAL INSTITUTIONS WITH UNDER R10 MILLION IN LOANS. DE JONGH PRAISED EFFORT OF BUSINESS ORGANIZATIONS TO PROMOTE IMPORT REPLACEMENT THROUGH VOLUNTARY "BUY SOUTH AFRICA" CAMPAIGN. HOWEVER, HE GAVE NO INDICATION THAT ANY DIRECT GOVERNMENT MEASURES WOULD BE TAKEN TO CURB IMPORTS.

6. COMMENT: IF THERE WERE EVER DOUBTS THAT GOVERNMENT WOULD STICK TO ITS RESTRICTIVE ECONOMIC POLICIES FOR

NEXT SEVERAL MONTHS, ONE GLANCE AT CAPITAL ACCOUNT FIGURES FOR FIRST HALF OF 1977 (A R649 MILLION OUTFLOW) IS ENOUGH TO DISPEL THEM. IT IS CLEAR NOW THAT CHARACTER OF THE CAPITAL ACCOUNT PROBLEM HAS FUNDAMENTALLY CHANGED. IT IS NO LONGER A QUESTION OF A REDUCED INFLOW OF FOREIGN CAPITAL BUT OF A SUBSTANTIAL DRAIN OF PRIVATE CAPITAL OUT OF THE COUNTRY. THIS HAD PREVIOUSLY UNCLASSIFIED

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OCCURRED IN 19760 IN AFTERMATH OF SHARPSVILLE AND THE CURRENT RANGE OF FOREIGN EXCHANGE CONTROLS WERE INSTITUTED IN RESPONSE. CURRENT CAPITAL DRAIN IS IN PART TRADE RELATED (DECLINING IMPORTS REQUIRING LESS TRADE CREDITS), HOWEVER, IT APPEARS THAT CONCERN WITH POLITICAL SITUATION AND ABSENCE OF INCENTIVE FOR REINVESTMENT IN CURRENT RECESSION ARE CAUSING FOREIGN SUBSIDIARIES TO REPATRIATE A HIGHER PORTION OF THEIR PROFITS THAN PREVIOUSLY. ALSO, ADDITIONAL SLIPPAGE TF CAPITAL OCCUR THROUGH CONTRAVENTIONS OF EXPORT CONTROLS BY DOMESTIC FIRMS. IN THIS SITUATION, A LARGE CUREENT ACCOUNT SURPLUS IS NEEDED JUST TO KEEP RESERVES AT THEIR CURRENT LEVEL. THE GOVERNMENT'S CONCERN OVER GENERAL STATE OF ECONOMY AND ITS ECONOMIC AND SOCIAL CONSEQUENCES IS OUTWEIGHED BY RISKS INVOLVED IN ANY SIGNIFICANT STIMULATION IN LIGHT OF COUNTRY'S RESERVE POSITION. SMALL INCREASE IN BANK CREDIT CEILINGS IS NOT EXPECTED TO HAVE MAJOR IMPACT AS MOST BANKS ARE BELIVED WELL BELOW THEIR CEILINGS. MAJOR QUESTION AT THIS POINT IS WHAT ARE FUTURE PROSPECTS FOR CAPITAL ACCOUNT. IT IS DIFFICULT TO BELIEVE THAT OUTFLOW CAN CONTINUE AT LEVEL OF SECOND QUARTER IN 1977 (RIPM) BUT DE JONGH INDICATED CONTINUED OUTFLOW APPEARS PROBABLE FOR NEXT FEW MONTHS. INTERESTINGLY GDP FIGURES FOR APRIL-JUNE QUARTER, PARTICULARLY REAL GROWTH IN NON-AGRICULTURAL SECTORS, MAY REFLECT FIRST FAINT SIGNS OF REVIVAL. HOWEVER, SHARP DIFFERENCES IN PERFORMANCE OF PRIMARY AND SECONDARY SECTORS MAKE IT DIFFICULT TO EDINTIFY ANY CLEAR UPWARD TREND. BOWDLER

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Status: NATIVE
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TAGS: EGEN, SF
To: STATE
Type: TE
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